

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE AUGUST 15, 2007 PENSION BOARD MEETING

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
John Martin (Vice Chairman)
Marilyn Mayr
Michael Ostermeyer
John Parish
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)
Thomas Weber

Others Present:

William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Jack Hohrein, ERS Manager and Pension Board Secretary
David Arena, Director, Employee Benefits, Department of Administrative Services
Vivian Aikin, ERS Administrative Specialist
Donald Campbell, ERS Project Manager
Gordon Mueller, ERS Fiscal Officer
Annette Olson, Benefits Coordinator
Dennis John, Milwaukee County IMSD
Debbrah Lewis, Milwaukee County IMSD
Wendy Kraly, Milwaukee County IMSD
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Chris Trebatoski, Weiss Berzowski Brady LLP
Terry Dennison, Mercer Investment Consulting
Kristin Finney-Cooke, Mercer Investment Consulting (by phone)
Adam Berger, AQR Capital Management
Ken Loeffel, Retiree
Cliff Van Beek, Retiree
Florence Ignarski, Retiree

3. Chairman's Report

(a) John Martin – New Position

The Chairman reported that Mr. Martin had accepted an offer of employment in the private sector and would be resigning from the Board effective after the September Board meeting. The Chairman wished Mr. Martin well, commended his expertise and stated that he is invaluable. Ms. Bedford agreed that the Board will miss Mr. Martin's experience.

Ms. Mayr asked about the timing of an election to fill Mr. Martin's position and whether any election rules for vacant positions applied. Mr. Van Beek noted that the Board must maintain its staggered term structure and conduct an election to fill the balance of Mr. Martin's term. Ms. Mayr stated that there should be a full complement of Board members as soon as possible. Dr. Peck agreed that each Board position should always be filled. The Chairman stated that there could be a double election in winter 2008. Mr. Grady explained that there are no rules on the timing of the election for employee Board member vacancies, except for the requirement that the position be filled in the same manner as it was originally filled.

Mr. Ostermeyer asked about the possible cost of the election. Mr. Hohrein responded that it should cost less than \$1,000. Mr. Hohrein stated that Mr. Arena had suggested outsourcing the handling of the Board elections. Ms. Mayr stated that the election should be held under the coordination of the Retirement Office. Ms. Mayr asked whether Mr. Loeffel could provide REMCO volunteers to staff the election booths. Mr. Hohrein responded that the people staffing the booths are traditionally paid by the hour. Mr. Ostermeyer stated that the Board should explore the possibility of staffing the election with unpaid volunteers.

Ms. Mayr moved to hold the election now for the balance of Mr. Martin's Board term. Dr. Peck seconded the motion. The motion failed 2-6-1, with Ms. Mayr and Dr. Peck voting in favor of the motion, Mr. Parish, Mr. Weber, Mr. Cohen, Ms. Bedford, Mr. Ostermeyer and Dr. Roepke dissenting and Mr. Martin abstaining.

The Board voted 7-1-1, with Ms. Mayr dissenting and Mr. Martin abstaining, to hold a double election in winter 2008 for Mr. Parish's Board seat and the remainder of Mr. Martin's term. Motion by Mr. Cohen, seconded by Mr. Ostermeyer.

The Chairman indicated that he had asked Mr. Weber to take Mr. Martin's position on the Vitech Implementation Oversight Committee through winter 2008 but that Mr. Weber had declined his invitation. The Chairman asked if there was a volunteer to join the Vitech Implementation Oversight Committee. Mr. Parish volunteered at the meeting to take Mr. Martin's position. The Chairman thanked Mr. Parish for volunteering.

The Chairman asked Dr. Peck to become the Investment Committee chair. Dr. Roepke indicated that the Investment Committee chair prepares the Investment Committee meeting agenda. Dr. Peck accepted the position of Investment Committee chair.

4. Minutes of the July 18, 2007 Meeting

Ms. Mayr stated that she appreciated that the minutes are very detailed. She suggested that Item 5(c) of the July minutes reflect that Vitech was the highest priced vendor in the survey, but it was also the highest rated vendor considered in the survey. Ms. Mayr also suggested deleting the phrase "without hesitation" from Item 9. She also suggested clarifying Item 10 to indicate the Governor's pension obligation bond proposal did not consider the Board's interests.

The Board reviewed and unanimously approved the minutes of the July 18, 2007 Pension Board meeting with the changes on pages 3, 9 and 10. Motion by Mr. Martin, seconded by Mr. Weber.

Mr. Ostermayer stated that he would like to draw the attention of the media to Exhibit 1 of the July minutes, which contains steps available to the County Board to correct the buy in and buy back violations. He noted that the Board merely presented options available to the County Board and did not recommend any specific course of action.

5. Report of Retirement System Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the Retirements Granted report for the prior month's retirements and asked the Board to review them. He noted that back DROP payments in the amount of \$1,154,038 had been made. Ms. Mayr asked if any of the members receiving back DROPs in the prior month participated in either the buy in or buy back program. Mr. Hohrein stated that he was unsure whether any person receiving a back DROP in the prior month participated in either program. Ms. Mayr stated that she finds it difficult to approve anyone on the Retirements Granted report who participated in the buy in or buy back program. Mr. Hohrein asked if this issue could be laid

over. Mr. Martin stated that he does not know if anyone on the report has a buy in or a buy back.

The Board discussed the process for approving retirements. Mr. Martin noted that everyone on the Retirements Granted report had already received at least one check from the Retirement Office. Mr. Grady stated that the Board must approve the retirements. Mr. Weber then inquired about the eligibility standards for retirement. Mr. Loeffel indicated that, due to the retirement process, the Board must approve retirements after the fact. He pointed out that Mr. Martin is on the County payroll until October 12, but he is retiring now. He stated that the Board should examine the process used to approve retirements in advance. Mr. Grady retracted his earlier statement that Board approval of retirements was required and indicated that he will look into whether the Board must approve pension payments. Mr. Ostermeyer agreed that if the Board must approve retirements, it should do so in advance.

Mr. Grady pointed out that the Voluntary Correction Program filing lists possible correction methods to rectify the various Internal Revenue Code issues, but does not include stopping retirements. Mr. Weber stated that the buy in and buy back issues will not be resolved in time to approve all pending retirements. Mr. Huff suggested that the Board discuss buy in and buy back procedures in closed session. The Chairman noted that the Board had approved the VCP filing and that the Board will discuss the buy in and buy back issues in the item 12 discussion to preserve the attorney-client privilege and that the public will see the results of the vote in open session. Ms. Mayr stated that the City of Milwaukee corrected its overpayment issue immediately and received an IRS ruling last year. She noted that it took between three and five years to receive IRS approval. The Chairman stated he is not willing to take action not approved by the IRS. The Chairman stated that if any of the members on the Retirements Granted report are on the VCP lists, they will be subject to the correction process. Mr. Loeffel asked about the buy in and buy back programs. Mr. Ostermeyer explained the differences between the buy in and buy back programs.

Ms. Mayr asked if any Board members received any buy in or buy back credit and stated that if they have, she thinks they should recuse themselves on buy in and buy back issues. The Chairman noted that no one made a statement. Mr. Martin and Mr. Parish then both stated that they have no buy in or buy back service credits.

The Board voted 8 – 1 to accept the Retirements Granted report, with Ms. Mayr dissenting. Motion by Mr. Martin, seconded by Ms. Bedford.

(b) Report on Waivers

Mr. Hohrein reported that Nana Ama Akyea, Assistant Financial Director/Aging; Mary Skwierawski, Assistant Budget and Fiscal Administrator/DAS; Gregory Gracz, Director of Labor Relations; and Dennis John, Milwaukee County IMSD CIO had all submitted benefit waivers. Mr. Huff reported that his law firm had reviewed each waiver and determined that the waivers submitted used forms recommended by the Board. He noted that his law firm prepared the basic City-County transfer form as a new model.

**The Board unanimously agreed to accept the waivers presented.
Motion by Mr. Martin, seconded by Ms. Bedford.**

Ms. Mayr noted that there were poorly drafted waivers in the past, including Sue Baldwin's waiver, and stated that she believes it is a good practice that waivers are prepared for the Board by its legal counsel.

(c) Retired Pension Board Member Election Update

Mr. Hohrein reported that Retiree Pension Board candidate Mr. Thompson requested the addresses and telephone numbers of all candidates. Mr. Grady stated that this will be addressed after the meeting as an open records request.

The Board next discussed candidates' statements for the retiree election. Ms. Mayr stated that a candidate is only entitled to publish one 75-word statement. Mr. Van Beek opined that revised statements were allowed at the previous election. Mr. Hohrein stated that Rule 1034 provides that the Retirement Office administers the election and that the Retirement Office has ruled that Rule 1034 permits only one statement.

6. Investments

(a) Investment Manager Report – AQR

Mr. Berger distributed a report on the AQR U.S. Small Cap Value Portfolio and presented it to the Board on behalf of AQR Capital Management. He reported that AQR is growing, especially in the international area. He stated that AQR's small cap value fund is closed to new investors. Mr. Berger noted that AQR purchases stocks that are undervalued and have positive momentum, and sells stocks it deems overvalued and that have deteriorating momentum.

Mr. Berger next discussed AQR's quantitative approach to investing. He reviewed the factors AQR uses in predicting a stock's performance in addition to value and momentum. These include earnings quality, investor sentiment, sustainable growth and management signaling. He stated that momentum relates to investment behavior over time. He noted that there are various ways to measure each factor. AQR collects data on every stock in the universe and scores each investment daily. He indicated that AQR only invests in the stocks that have the best earnings and growth prospects. He reported that AQR believes in broad diversification and taking many small positions. He also stated that AQR stays disciplined to its system and remains objective, all while focusing on trade execution.

The Chairman asked Mr. Berger how the investment process applies to ERS. Mr. Berger presented a comparison of the composition of the ERS portfolio to the Russell 2000 Value benchmark. He noted that the ERS portfolio has a lower P/E ratio than the Russell 2000 Value. Mr. Berger next discussed the ERS portfolio's performance. He advised that AQR has only been retained by ERS for seven months, which is a very short period for assessing performance. Mr. Berger stated that he is confident that AQR's investment process will produce results over the long term in both the U.S. and global markets. He noted that the market is currently very turbulent. He explained that the current market conditions are due to the short-term pressure in the market to cover subprime investments by raising cash. He further explained that cash is being raised by selling stocks investors like and buying the stocks investors shorted or did not like because those investments raised the most cash, which the investors needed to cover their subprime investments. Mr. Berger discussed that over the long term, value is still an attractive strategy. He further explained that the value of a stock changes over time and that value stocks become "more on sale" as prices go down.

Mr. Berger responded to various questions from the Board regarding current market conditions and factors. Dr. Peck asked whether someone looks at all the stocks AQR invests in. Mr. Berger answered that AQR focuses on what it can quantify by sticking to the investment process and disregarding what AQR considers "noise." The Chairman asked if AQR invests in mid-cap stocks within the small cap portfolio. Mr. Berger answered no, but stated that AQR looks at whether the stock fits the portfolio because stocks shift back and forth based on market capitalization. Mr. Berger responded to Dr. Peck's question of whether AQR uses a market cap when it chooses which stocks it invests in by discussing AQR's investment approach. In response to a question from Dr. Peck regarding the need for imperfectly correlated sources of return to generate consistent

performance, Mr. Berger discussed what happens to investment performance when sources of return correlate more perfectly. Ms. Bedford asked how AQR builds its portfolio. Mr. Berger stated that each stock is assigned its own weight.

Ms. Bedford asked whether anyone on the Board received a letter from AQR. She stated that she read an article in the *Wall Street Journal* about a letter that AQR's founder, Clifford S. Asness, had sent to investors. Mr. Martin indicated that the Board had received such a letter.

The Board excused Mr. Berger from the meeting.

(b) Mercer Report

Mr. Dennison and Ms. Finney-Cooke presented Mercer Investment Consulting's report to the Board. Mr. Ostermeyer stated that Mercer's second quarter book is a very important document and that the Board would like to have it reviewed again at the next meeting.

Mr. Dennison reviewed market information for the second quarter of 2007. He stated that the securities market rebounded in the second quarter, but the real economy did not do as well due to labor shortages, high energy prices, high mortgage rates, a housing slump and subprime mortgage defaults. He noted that the subprime mortgage situation is serving more as a trigger than the main event in the U.S. He reported that subprime mortgages are having a worse impact in Europe, pointing out that a German bank failed due to its subprime mortgage exposure. He stated that the Federal funds rate, which is the rate at which banks lend between themselves, is set at 5.25%, but real transactions recently opened at 6%. He noted that last week, the Federal Reserve Bank of New York was buying mortgage bonds to help avoid a credit crunch.

Mr. Dennison also noted that there is a growing distrust of collateral in the market. He reported that highly rated intermediate bond funds' value can decrease, even if the underlying bonds are of excellent credit quality, because investors do not want to buy the bonds. Mr. Dennison answered Ms. Bedford's question by agreeing that the average European buys his or her home differently than the average American.

Mr. Dennison next discussed ERS's performance for the quarter. In response to a question regarding how well ERS is performing versus its benchmark, he replied that ERS is in the 90th percentile. Mr. Dennison reviewed the risk versus return comparisons and indicated that ERS could increase its risk exposure. He reported that ERS has achieved a greater

return by using investment managers when compared to the market index. He reviewed that ERS currently has 37% of its funds invested in fixed income, which is at the high end. He noted that such an allocation limits returns in an up market but makes a difference in a down market, such as this third quarter. Mr. Grady noted that the investment allocation is set partially by the maturity of the fund. Mr. Dennison next reviewed the risk-return comparisons for the U.S. fixed combined universe. He indicated that ERS was at the top end and that ERS was doing well relative to its objectives.

Mr. Dennison next reviewed the performance of the investment managers. He stated that Hotchkis & Wiley was beating its benchmark, but Mercer is monitoring its performance. He noted that Artisan is performing very well and is exceeding its benchmark. He reviewed the performance of EARNEST Partners, noting that it made a strong comeback for the second quarter. He also indicated that Reinhart Partners, Inc. beat its benchmark. Mr. Dennison reported that Westfield Capital Management continued to struggle and performed below its benchmark. He asked if Westfield should be on a future Board agenda. The Chairman answered that Westfield should be placed on the agenda. Mr. Dennison indicated that AQR was initially struggling in its performance. He also noted that while Capital Guardian has some issues, it beat its benchmark.

Mr. Dennison next reviewed the international small cap performance. He noted that Capital Guardian experienced positive returns, but was taking less risk. He reported on the core fixed income performance. He noted that Mellon and JPMorgan performed like index funds, while Loomis was performing very well. Mr. Dennison next reviewed the high yield fixed income performance. Dr. Peck asked a question regarding the U-shaped yield curve. Mr. Dennison answered that short-term rates are rising due to the credit crunch, while long-term rates are rising because the solution to the slowdown in the economy will be inflationary. He further noted that it is always inflationary to fight a slowdown in the economy.

The Chairman stated that as a mature fund, there is negative external cash flow for ERS's benefit payments. He asked Mr. Dennison to address the proper allocation to high yield fixed income. Mr. Dennison stated that high yield fixed income makes sense strategically over the long term, although there may be some periods of lower returns or problems with such an allocation. Ms. Mayr stated that there is an investment policy with allocation ranges and that ERS has been out of the policy range. Mr. Ostermeyer requested that the quarterly performance report show the

applicable benchmarks, similar to the way they are shown in the monthly Flash Report.

Ms. Finney-Cooke presented the Flash Report for July 2007. She noted that ERS had an aggregate market value of just over \$1.62 billion at the end of July. She indicated that ERS's aggregate market value declined by 1.6% in July, which matched the Reference Index.

Ms. Finney-Cooke reported that Hotchkis & Wiley performed worst in July, while Artisan, EARNEST, and Westfield were the three best performers in July. She noted that the overall equity markets were down in July. She stated that Boston Partners and Artisan were both ahead of their benchmarks, while Hotchkis & Wiley was down 8.9% in July. She reported that Earnest was ahead of its benchmark for the year to date. She indicated that Reinhart Partners, Inc. has done very well since its inception and is almost 100 basis points ahead of its benchmark, while AQR is slightly trailing its benchmark. She stated that the international equity market was performing at its expected level and that the Board is replacing Capital Guardian. She also noted that the fixed income market was fairly stable.

(c) Investment Committee Report

(i) ING REITs — Move from U.S. to Global

Mr. Martin reviewed the August 2, 2007 Investment Committee meeting minutes. He stated that Mellon gave a presentation on securities lending. He reported that the Investment Committee agreed to make a recommendation to the full Board to move from domestic to global REITs with ING. He also reported that the committee discussed rebalancing the portfolio absolute percentages after the July returns were reviewed. Ms. Mayr asked when the percentages would be rebalanced. She stated she has been asking for rebalancing for over one year.

Ms. Finney-Cooke discussed switching from domestic to global REITs. She stated that Mercer's view is that there are better opportunities with global than only domestic REITs. She noted that the Investment Committee examined nine different global REIT managers. She stated that the Investment Committee narrowed its search to look over five managers over a period of the next year or so. She reported that the Investment Committee's recommendation is to move to ING now because it is seamless and easy now. She also stated that global REITS include investments in the U.S. She

discussed creating a research book on the other four global REIT investment managers and that the Board could then make a determination on the ultimate decision. She noted that all five candidates are rated A or B+ by Mercer. Ms. Mayr stated that the Board should be cautious and go slow in selecting an additional REIT manager because ERS may have too many managers. Ms. Mayr also stated that she sees no reason to hurry to another manager other than ING.

The Board unanimously agreed to transition ERS's investment in REITs from domestic to global REITs with ING. Motion by Ms. Bedford, seconded by Ms. Mayr.

(ii) Rebalancing Fixed Income

Ms. Finney-Cooke stated that rebalancing fixed income was discussed at the August 2, 2007 Investment Committee meeting. She reported that Mercer presented a memorandum on the subject to the Investment Committee. She noted that underweighting was addressed twice in 2006. She stated that \$5 million was switched from high yield to core fixed income and that the Board directed Mercer when this occurred too slowly. She noted that \$66 million was transferred from large cap growth to the core fixed income portfolio, half coming from Mellon and half from Boston Partners. She stated that now ERS needs to move more funds from international equity to core fixed income again after the July correction to the equity markets. Ms. Finney-Cooke recommended transferring \$39 million to fixed income, \$20 million coming from GMO and \$19 million coming from Mellon S&P. She also suggested to increase the high yield percentage range by .5%.

The Chairman suggested that the Investment Committee review Mercer's recommendations and then advise the Board. Ms. Mayr stated that it appears to her that the Board waits too long to correct imbalances to see how the markets are doing. Ms. Finney-Cooke responded by saying that the July investment experience made a \$20 million difference in the amount of money recommended to be moved. Mr. Martin stated that in light of the discussion at the July Investment Committee meeting, the Investment Committee is ready to accept the recommendation of Mercer now.

The Board unanimously agreed to have Mercer transfer the \$39 million as directed. Motion by Mr. Martin, seconded by Ms. Mayr.

Ms. Finney-Cooke stated that she will prepare letters for Mr. Hohrein to sign.

7. Implementation of New Technology Software

(a) Overview of Vitech Project

Mr. Campbell presented and distributed a PowerPoint presentation entitled "Milwaukee County Pension Management Information System Migration Solution Overview." Mr. Arena introduced three Milwaukee County IMSD employees, the new director Dennis John, Debbrah Lewis and Wendy Kraly. Mr. Arena also introduced Annette Olson, who supports Mr. Campbell and Mr. Hohrein.

Mr. Campbell presented and distributed the V3 Status Report. He stated that Mr. Rodriguez was leaving Vitech. He reported that he was meeting with Vitech to discuss Mr. Rodriguez's replacement and the new timetable for the V3 project. Mr. Campbell next discussed the slides in the PowerPoint presentation. He noted that Genesys was an outdated technology. Mr. Campbell provided many examples of how the Genesys technology is outdated. He reported that data was added in the wrong fields, resulting in a need for data cleansing.

Mr. Campbell stated that V3 is a hosted solution, which means V3 is run by highly secure servers in New York. He reported that when Ceridian goes live by the end of 2007, ERS will need to keep Genesys running to process benefit payments. He stated that when V3 goes live, both Ceridian and Vitech will be hosted systems.

(b) Rule 301 Amendment

The Chairman indicated that this item was placed on the agenda because it was thought that the Vitech system's capabilities would require amending Rule 301, but after further review with Vitech, it has been determined that amending Rule 301 is unnecessary.

8. Vitech Implementation Oversight Committee Report

Mr. Martin stated that a report from Mr. Campbell was considered in depth by the committee. He noted that most committee members represent Milwaukee County IMSD. He reported that Mr. Campbell presents a summary to the committee.

9. Report on Task Force on Pension Funding

Mr. Cohen reported that there was no meeting this month. In response to a question from Ms. Mayr, Mr. Loeffel indicated the tentative date of the next meeting. The Chairman asked Mr. Hohrein to provide a confirmed meeting date to Ms. Mayr when known.

10. Report on Audit Committee

Mr. Parish, the chair of the Audit Committee, reported on the August Audit Committee meeting. He stated that the Mellon custodial RFP had been given to the Board's legal counsel for completion and the ERS employee handbook was forwarded to the Board's legal counsel for review. Ms. Mayr asked how much it will cost to finish the custodial service RFP. The Chairman stated that he does not view the project as very extensive. Mr. Huff reported that he does not yet have all the necessary information to evaluate the scope of the RFP.

Mr. Parish reported that at the meeting, the Audit Committee reviewed a memorandum from Mr. Hohrein suggesting that marriage and birth certificates be required as part of the pension application process. Mr. Parish also noted that Mr. Hohrein also suggested in his memorandum that the Board could consider other options to substitute if no birth certificate exists or it is unavailable. Mr. Parish reported that the Audit Committee recommended that the Board create a Rule requiring specific documentation when applying for benefits.

The Board unanimously agreed to adopt the recommendation of the Audit Committee to adopt a Rule to make marriage and birth certificates part of the benefits application process. Motion by Mr. Martin, seconded by Mr. Weber.

Mr. Parish next discussed the options for operational audits, which included the continuing Internal Revenue Code compliance audit, a CPA firm benefit payment audit and an early 1990s buy in audit. Ms. Mayr asked when the Internal Revenue Code compliance issues will be resolved. The Chairman responded by saying that the Board's legal counsel hopes to complete its review of the Internal Revenue Code compliance issues by spring 2008. Mr. Huff indicated that more buy ins and buy backs are being reviewed and that his firm is reviewing other sections of the Ordinances for compliance with the Internal Revenue Code.

Ms. Mayr stated that benefit payments are already audited by the CPA firm, Virchow Krause. The Chairman asked Mr. Mueller to describe the current benefit payment audit procedures for ERS. Mr. Mueller stated that Virchow Krause selects 30 files every year to calculate benefit amounts and compare its calculations to the actual benefits being paid. Virchow Krause has audited 150

members' benefit payments over the past 5 years. Mr. Mueller indicated that the largest underpayment discovered on audit was \$350 and the largest overpayment was \$240. Ms. Mayr asked if the \$240 overpayment was recovered. Mr. Mueller stated that it was recovered. In response to Ms. Mayr's question regarding the existence of Internal Revenue Code errors, Mr. Mueller stated that there were no Internal Revenue Code errors discovered during the benefit payment audits. Mr. Mueller answered Ms. Mayr's follow-up question by reporting that the audits do not check for Internal Revenue Code errors, but rather the errors are generally mathematical or oversight errors. Ms. Mayr also asked if the auditor checks for compliance with ERS Ordinances and Rules. Mr. Mueller answered by saying the auditor checks for compliance with County Ordinances during the benefit payment audits. Ms. Mayr questioned whether the audits of the 150 benefit payments have been checked against the list of buy ins and buy back violations. Mr. Mueller responded that they had not been checked against the violations list.

The Chairman reported that those in attendance at the Audit Committee meeting were concerned about using Virchow Krause, which is the County's auditor, because of a potential appearance of a conflict of interest. He also suggested that a more comprehensive analysis could expose even more information than the annual Virchow Krause audit. Ms. Mayr noted that an audit may be appropriate. She proposed that the Board turn the matter to the District Attorney and ask for a John Doe investigation. Mr. Ostermeyer indicated that this subject will be addressed in Item 12 on the agenda and can be addressed during that portion of the meeting. Ms. Mayr stated that because the discussion of Item 12 will occur partly in closed session, the public will not hear the entire discussion. Dr. Peck and Mr. Ostermeyer both stated that it will be discussed in open session for the public to hear after the closed session portions, such as litigation issues, have been discussed. The Chairman noted that the Board needs to preserve the attorney-client privilege it has with counsel in litigation.

Mr. Ostermeyer stated that Mr. Mueller must still provide a written report on the conference he attended.

11. Legal Update

(a) Closed Session

The Vice-Chairman stated that the Board may adjourn into closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation and for considering the financial, medical, social or personal histories or disciplinary data of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data.

The Board voted 8-1 by roll call vote, with Ms. Mayr dissenting, to enter into closed session to discuss items 11-12. Motion by Mr. Martin, seconded by Mr. Parish.

(b) Pending Litigation

The Board discussed pending litigation in closed session.

(i) Milwaukee County et al. v. Mercer Human Resource Consulting

(ii) Hanson v. ERS

(iii) FNHP v. County and ERS – WERC Complaint

12. Report on Compliance Review

(a) Possible Audit Recommendations

Upon returning to open session, the board voted 8-0-1, with Ms. Mayr abstaining, to adopt two motions attached to these minutes as Exhibits 1 and 2. Motion by Mr. Ostermeyer, seconded by Mr. Cohen.

The Chairman discussed a press release, which is attached to these minutes as Exhibit 3, and noted that the press release was being given to the *Milwaukee Journal Sentinel*.

Mr. Martin was excused from the meeting.

Ms. Mayr asked why the Board has to wait for the IRS to take corrective action with respect to the buy in and buy back issues. The Chairman responded that he and Mr. Domina have gone to great lengths to explain the need to wait for the IRS's approval. Dr. Peck stated that the Board is waiting for the IRS to indicate how ERS should proceed in correcting the Internal Revenue Code violations to protect the tax-exempt status of ERS for the benefit of the taxpayers.

(b) Ongoing Procedures

In open session, Mr. Huff discussed procedures to be followed by the Retirement Office for processing all future buy backs and all in-process buy ins that do not involve 457 plan payments. The Board also decided to discuss in-process buy ins that involve 457 plan payments.

The Board voted 7-0-1, with Ms. Mayr abstaining, to enter into closed session to discuss the ongoing procedures.

Upon returning to open session, Mr. Huff stated that the Retirement Office must not accept any 457 plan payments.

The Board unanimously adopted the procedures as presented for processing all future buy backs, for in-process buy ins where 457 plan payments have been received and for in-process buy ins without 457 plan payments. Motion by Dr. Peck, seconded by Mr. Weber.

13. Appeal of Jackie Wigley — ADR Earnings

Jackie Wigley's appeal was laid over until the Board's September 2007 meeting.

14. Disability Applications or Reexaminations

(a) Shirley Nash

The Chairman discussed in open session that Dr. Bonner did not previously find Ms. Nash disabled. However, the Board had previously allowed an exception for good cause to allow her to reapply on a different basis within 12 months. The Chairman reviewed Dr. Bonner's report.

The Board unanimously agreed to enter into closed session to discuss Ms. Nash's medical information. Motion by Ms. Mayr, seconded by Mr. Ostermeyer.

Upon returning to open session, the Board unanimously approved Ms. Nash's application for an ordinary disability pension based on the recommendation of the Medical Board. Motion by Ms. Bedford, seconded by Mr. Parish.

15. ERS Proposed Ordinance Amendments

In open session, Mr. Huff reported on proposed ERS and OBRA Ordinance amendments. The Board agreed to delete three proposed Ordinance amendments that relate to buy ins and buy backs from the package of proposed Ordinance amendments sent to the County Board.

The Board unanimously approved the Chairman sending the Ordinance amendments, as revised consistent with the discussion noted above, to the County Board Chairman. Motion by Mr. Weber, seconded by Ms. Bedford.

16. Continuing Education/Board Retreats/Training and Professional Organizations

(a) JPMorgan Asset Management Conference.

The Chairman stated that attendance at the JPMorgan conference was preapproved for any Board member. He also reminded the Board that no

one should golf at the expense of JPMorgan or accept anything of value from JPMorgan.

(b) CAPPP — Anaheim, CA

The Chairman discussed the International Foundation of Employee Benefit Plans' Certificate of Achievement in Public Plan Policy in Employee Health and in Employee Pensions program. The Chairman stated that the two-day program runs from November 3-4, 2007, which is two days before the International Foundation's annual conference, and is held at the same location as the annual conference, in Anaheim, California. The Chairman noted that he is a graduate of the CAPPP program and he strongly encouraged all Board members to attend.

The Board unanimously approved the attendance of Board members at the CAPPP program. Motion by Ms. Bedford, seconded by Dr. Peck.

17. Adjournment

The meeting adjourned at 3:35 p.m.

Submitted by Steven D. Huff,
Assistant Secretary to the Pension Board

EXHIBIT 1

RESOLUTIONS ADOPTED BY THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. The Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") has authority over the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS") pursuant to Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances").
2. The Pension Board has learned that issues have arisen with respect to the day-to-day administration of ERS and that errors in administration may have occurred in the past.
3. The Pension Board would like to conduct certain reviews and audits of ERS to thoroughly investigate potential operational issues and determine appropriate corrective action plans.

RESOLUTIONS

1. The Pension Board authorizes the Retirement Office, along with Pension Board members or committees and legal counsel, as appropriate, to continue to review and audit operational issues that may be brought to the attention of the Pension Board and/or filed for correction with the Internal Revenue Service.
2. The Pension Board authorizes an outside service provider to perform a sampling audit of pension benefit payments.
3. The ad hoc committee today authorized by the Pension Board shall select a service provider to conduct the sampling audit referred to in Item 2 above.
4. These resolutions are adopted effective August 15, 2007.

EXHIBIT 2

RESOLUTIONS ADOPTED BY THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. The Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") has authority over the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS") pursuant to Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances").
2. The Pension Board has learned that issues have arisen with respect to benefit payments from ERS and that errors in administration have occurred.
3. The Pension Board would like to appoint a committee to retain an independent person or entity to conduct an independent review of ERS's benefit payments and to investigate issues and concerns regarding ERS's benefits, including (without limitation) to analyze and review the establishment of the buy in program by the Retirement Office in the early 1990s.

RESOLUTIONS

1. The Pension Board authorizes the formation of an *ad hoc* committee to identify and qualify candidates to conduct an independent review of ERS's benefit payments and to investigate issues and concerns regarding ERS's benefit practices, including (without limitation) to analyze and review the establishment of the buy in program by the Retirement Office in the early 1990s.
2. The Pension Board authorizes the committee to select and retain an appropriate person or entity to conduct the independent review and investigation.
3. The *ad hoc* committee is authorized to discuss its review and investigation with and, if appropriate in the committee's view, to cooperate with the consistent efforts of the County Executive and/or the County Board of Supervisors; provided that the expenses of the independent review here directed are shared equitably.
4. These resolutions are adopted effective August 15, 2007.

EXHIBIT 3

AUGUST 15, 2007

**EMPLOYEES' RETIREMENT SYSTEM
OF THE COUNTY OF MILWAUKEE**

On June 29, 2007, the Employees' Retirement System of the County of Milwaukee ("ERS") submitted a Voluntary Correction Program ("VCP") application under the Employee Plans Compliance Resolution System ("EPCRS") of the Internal Revenue Service ("IRS"). The initial VCP application was submitted to correct violations discovered during a review of the Retirement Office's administration of the "buy in" and "buy back" programs during the past 20 years. (The buy back program allows an individual who returns to County employment to repurchase prior service credit after receiving a distribution from ERS that represented the prior service credit; the buy in program allows an individual who could have opted into ERS, but did not do so, to purchase service credit for time worked as an optional employee, such as a seasonal worker.) On August 9, 2007, ERS submitted a supplemental VCP application to address other violations discovered since the initial VCP application.

Current information indicates that 96 of the 104 buy back applications processed by the Retirement Office contained one or more violations of County Ordinances. In addition, 117 of the 369 buy in applications processed by the Retirement Office contained violations of County Ordinances or ERS Rules.

Having filed an application under VCP, ERS now awaits IRS action approving one of the suggested remedial courses of action. The IRS's practice in processing VCP

applications uniformly indicates that months will elapse before the IRS provides formal and final directives on how ERS should correct the errors described in the VCP submission. Once the IRS provides its guidance with respect to the filing and the errors described in it, ERS will take appropriate action.

Meanwhile, the Pension Board will continue its effort to review and to address various benefit payment issues. As indicated by the Resolutions passed at the Board's meeting on August 15, 2007, these efforts will include an actuarial review of benefit payment calculations as well as an independent review of benefit program and payment practices.